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Pension Peculiarities

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A study prepared to help Congress design a new federal pension plan points up some surprising differences in costs and benefits between retirement options offered to civil servants and employes in the private sector.

Among the findings:

- Contrary to what many people believe, federal workers retire at about the same age (61-plus) as private-sector employes, who typically leave at 62.
- About half of all American workers outside of the federal government do not have any kind of employer-provided pension plan. Their retirement income will depend on Social Security benefits and any savings they have put aside.
- Federal employes who retire at 65 generally get smaller initial benefits than private-sector workers who retire at the same age.
- But most feds who retire early (at 55 with 30 years' service) get bigger lifetime pensions than their nonfederal counterparts who retire early. That is because most private pension plans are not indexed to inflation and penalize workers for early retirement. Full Social Security benefits are not available until age 65, and partial benefits cannot begin before 62.

The 350-page report, released yesterday by the House Post Office-Civil Service Committee, was prepared by the Congressional Research Service (CRS). The study will provide the data base and points for discussion by legislators and officials preparing the retirement program.

The Reagan administration wants to raise the federal retirement age to 65. Congress this year must decide on a new pension plan for feds hired since January 1984 who are also under Social Security. In designing the program, it could decide to make major changes in the program that covers most of the 2.6 million federal workers who are in their own system that is independent of Social Security.

Because retirement issues are so politically supercharged and the data and comparisons so complex, Congress will lean heavily on the material in the nonpartisan CRS report.

Among the other findings:

- Federal employes earning $40,000 a year or less who retire after 30 or more years in government generally get smaller benefits than private-sector workers because many feds are not eligible for Social Security.

Social Security benefits are tilted in favor of lower-income workers. Civil service pensions are based on a formula that rewards employes for long service and higher income.

Social Security, however, replaces more of preretirement income for lower-paid workers, thereby penalizing longtime employes who have earned the highest salaries. In addition, many private firms now offer employes the option of putting part of their salaries into tax-deferred savings plans, where funds are usually matched in part by the company.

- The federal retirement program costs the government 25 cents for every dollar paid in salary. In industry, employer costs range from 15 to 19 cents for every dollar of payroll.

CRS said there are two main reasons for the higher federal costs: Federal workers may retire at 55 with 30 years of service and begin receiving unreduced benefits (equal to 53 percent of salary); and these unreduced benefits are generally increased by the rate of inflation.

- Most private firms give their retirees only occasional inflation adjustments. During the 1970s, CRS said, retired employes typically got benefit adjustments that offset only about 38 percent of the actual rise in living costs. In other words, for every $1 increase in inflation, the retirees got 38 cents.

One proposed federal retirement plan, advanced by Sen. Ted Stevens (R-Alaska), would set up a new federal program modeled on private-sector plans. It would combine civil service and Social Security benefits with optional tax-sheltered savings plans.